

ACTIVE RISK MANAGER

Winning More Aerospace/Defense Business with Active Risk Manager

Active Risk Manager (ARM) from Active Risk (formerly Strategic Thought Group) is recognized as having the most extensive risk management capability today. ARM will help you win and deliver more profitable projects by enhancing your ability to develop the highest quality risk management plans to ensure you outbid your competitors in terms of credibility, content and pricing. ARM helps structure the most accurate estimates of costs, reserves and resulting margins that are fundamental for the delivery team to succeed in meeting commercial objectives.

DEFENSE ACQUISITION CHANGES REQUIRE ROBUST PROCESSES TO ENSURE BID SUCCESS

As defense budgets come under scrutiny, as projects move towards fixed price and as competition from smaller integrators increases, times are definitely changing for the Aerospace and Defense industry. In addition government, auditors and citizens are seeking greater transparency, rigor and value for money from defense contracts as they have lost patience with the major cost over-runs seen in the industry over the past decade.

This changing market means integrators need to evolve to find more clever ways to win and deliver profitable business. Increasing management and reporting requirements for customers and complex partnering demands means the bid phase takes on even greater importance to ensure long term success as the project moves from the bid to the build and operational stages of the contract. Getting estimates wrong in the bid process will lock in potential losses in the project that even large contingency buckets cannot protect against.



Image © US Air Force / Staff Sgt. Andy M. Kin

**“We see ARM as
a ‘game changer’
for the Air Force”**

*– Terry Balven, Director,
Acquisition Business Systems,
US Air Force*

Active Risk Manager has been chosen by the US Air Force (USAF) as its risk management software tool to enable the standardization of its enterprise risk management processes and to underpin “acquisition excellence”. ARM will enable USAF to optimize and streamline resources throughout its acquisition organization and to manage risks within programs and at the enterprise level.

The ability to demonstrate shared and transparent communication among partners, including the customer, delivers both the promise and reality of reduced uncertainty. From the customer's perspective acquisition decisions hold less residual risk and from the contractor's point of view procurement response, contingency and penalty costs can all be reduced which will positively impact ultimate profit margins.

BUILD CONFIDENCE INTO YOUR PROPOSALS THROUGH INCREASED RE-USE OF KNOWLEDGE

The use of ARM during the bid process promotes the standardization of the 'risk vocabulary', common procedures and reporting – even across organizational boundaries. It allows disparate bid teams to share information from previous successful (and unsuccessful) bids and to benefit from lessons learnt throughout both the tender response process and from project delivery.

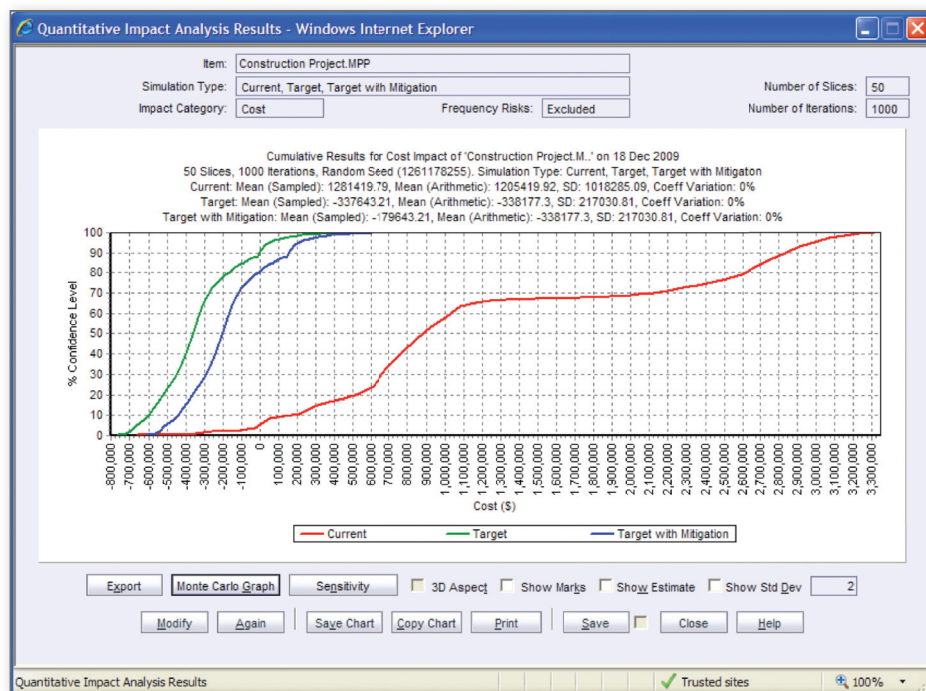
For instance you should be asking the question “how does our organization currently track project issues and resulting losses, and how are these made available to me to learn from in my bid process?” ARM's Knowledge Base capability and ability to manage issues and assumptions as well as risks and opportunities means that the bid manager has a significantly stronger arsenal of management information to call on to deliver the most competitive pricing and the winning bid.

Using ARM's shared Knowledge Base builds confidence and allows like-for-like comparisons and standardization. ARM will hold mitigation plans for the risks identified and this can be used to demonstrate deep understanding even within the bid response itself. ARM illustrates the power of your organization's enterprise risk management process throughout every facet of a project. The superior information available from the use of ARM allows an organization to offer more options around commercial terms. It also provides the ability to look at ways of risk and reward sharing with the customer and partners while making the pricing and level of contingencies more refined.

INCREASED ACCURACY OF COST ESTIMATES ENABLE LEANER PRICING

ARM's quantitative and qualitative measurement of risks enables effective comparison and escalation. ARM makes the true picture clear, giving visibility across projects to highlight resourcing issues, supplier performance problems and emerging risks. ARM means you'll deliver more projects on-time, on-budget and win more business as a result. Give your project teams a head start by transferring the risk management plan immediately the project is won. With ARM this is centrally stored and the project team has immediate access to the assumptions, requirements, threats, opportunities, management reserve and contingency estimates that were produced to win the deal. Without this there is a high probability of disconnect between sales and project teams, an area where historically customer confidence has often been eroded.

As ARM supports quantitative analysis techniques (as well as qualitative), the ability to use Monte Carlo simulations for time, cost and performance means that pricing can be performed directly off the risk curve generated by the software – at the required confidence level. Various simulated mitigation strategies can be modeled and presented to the customer as different pricing levels based on the level of risk the customer wants to accept or share.



In addition, by linking together risks, opportunities, mitigation strategies and the associated management reserves for mitigating the risks with the contingency provisions for any residual uncertainty, means that bid managers are able to produce more accurate projections of future costs. These will be supported by detailed analysis of the risks and the remaining uncertainty that needs to be managed to enable successful delivery of the project to the customer.

All this helps to protect projected profit margins during the actual delivery of the project.

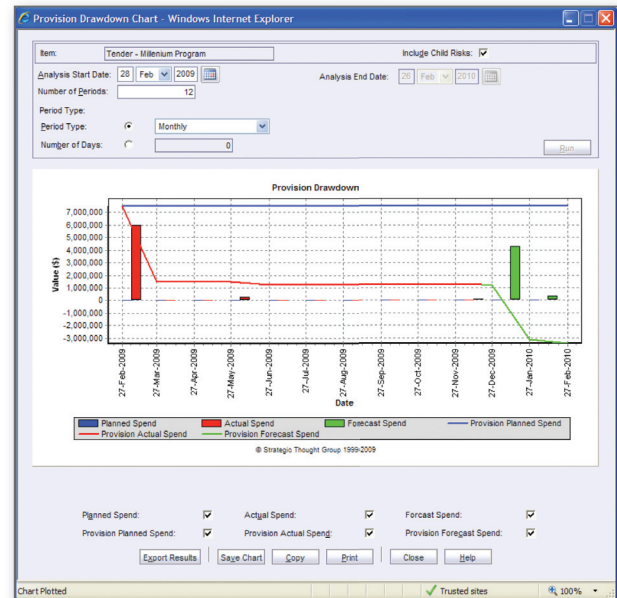
MAKE SAVINGS ON MANAGEMENT RESERVES AND CONTINGENCIES AND IMPROVE THE CHANCE OF WINNING AWARD FEES & INCENTIVES

Most business proposals include substantial contingency amounts. If you aggregate these unspecific “pots of capital” across the entire organization you realize how much working capital is being tied up in unspecific “uncertainty” reserves with no correlation to the actual risks of the project.

It is only prudent to put aside funds to cover unexpected events, however the more information that is available regarding these events the more specific mitigation strategies can be made to manage them. The overall level of residual uncertainty can be substantially lowered. The contingency required to cover this lower level of uncertainty can therefore be reduced.

ARM reduces the need for “finger in the air” estimates of contingency. ARM provides a qualitative and quantitative view of risks and so a “monetized” picture can be built up in the tendering Knowledge Base. ARM’s management of risks means controls, mitigation plans and fallbacks can be put in place to reduce the likelihood of issues happening and to minimize the impact should risks occur. The use of project controls, mitigating actions and fallback plans are all a fundamental part of building cost effective mitigation strategies and hence successful projects.

The risk knowledge in ARM will not only make management reserves better match risk levels but it can also model the likely timeline of reserve drawdown. This is an invaluable aid as it becomes possible to forecast the timeline of drawdowns against provisions and budget accordingly. This knowledge provides the confidence to free up budget so that it can be used in ways which will deliver a much higher return on investment or savings for the customer.



In more advanced customer bidding processes the opportunities which are identified and can also be stored within ARM can be used in the process to identify the possibilities for margin enhancement. These can be used either to support any residual uncertainty or risk mitigation funding requirements not met by the specified management reserve. ARM fully supports opportunity management and therefore organizations can utilize both risk and opportunity information in the bid management process.

You can only manage what you can measure and the traditional contingency approach to protect profit margins is inefficient, outdated and resulted in over-priced bids. With ARM, the ability to reduce and phase reserves and contingencies thanks to more accurate information on risks, opportunities and planned mitigation strategies means that working project capital can be freed up. The ability to target specific management reserves against specific risks offers the ability to reduce contingency as there is more certainty in the project cost estimates.

HAVE CONFIDENCE IN ARM – IT HAS THE REPUTATION AND TRACK RECORD TO HELP WIN YOU MORE BIDS

Active Risk Manager is the world’s most widely deployed project and program, web based risk management system. It is in use in over 170 of the globe’s most respected and demanding government agencies, commercial organizations and projects. Both the US Department of Defense (DoD) and the UK Ministry of Defence (MoD) are strong supporters

of lifecycle risk management approaches – both organizations are customers of ARM.

Eight of the ten largest global defense contractors use ARM across their businesses to risk manage a range of processes – from cost-effectively responding to proposals with accurate pricing, management reserves and contingencies, to delivering projects without penalties and managing complex supply chains. ARM is the de-facto risk management system in A&D. Its use is increasingly recommended to integrators to ensure a common way to articulate and address risk in projects especially where there are multiple partners.

Due to ARM's significant reputation in the market as the most capable risk management tool, there is a high probability that customers and partners will already be using it and will see value in integrators using common systems & processes. Feedback shows ARM customers have significantly increased the number of contracts won and can improve program margins by as much as 20%.

ARM meets ITAR security requirements and allows organizations to work together sharing only the levels of information appropriate for each project. This simply can't be done with spreadsheet or desktop based solutions.

In one real life example, ARM is used to identify potentially unprofitable contracts where the risk-reward relationship is not positive enough. This organization has reduced its cost of sale by being more targeted in the business it goes after, substantially increased its win rate and is more secure in the knowledge that the contracts it does win will be profitable.

On a purely administrative level, ARM provides a consistent and reliable process replacing inconsistent standalone systems and spreadsheets. ARM customers report that the administration savings and efficiencies

from bringing automation to the production of risk reports and management presentations are substantial – even before other project improvements are considered.

Spreadsheets simply can't deliver this level of value. They don't offer the ability to drive competitive advantage in the bid process.

ARM HELPS YOU PROFIT FROM NEW CHALLENGES

Increased pressure on defense budgets and acquisition changes should act as the drivers to review your approach to aerospace and defense contract bids. With a trend towards risk-adjusted forecasting, increased transparency and improved communication due to the implementation of enterprise risk management processes, the industry as a whole will benefit from these challenging changing times.

Active Risk Manager is the industry leading project and program risk management system and it will help your organization win and deliver more profitable business. When you win the project you will have the confidence in knowing that your project team will have a software solution and starting management information that meets the risk management guidelines recommended by the GAO and the DoD acquisition process.

ARM makes this easy. It doesn't require a statistical expert to be involved or someone with years of quant modeling experience. It provides an easy to use collaborative environment where knowledge and experience can be shared.

SUMMARY

ARM will make sure you use the knowledge from within your organization and network to win and deliver more profitable business.